THOUGHT OF THE WEEK

A Bull Market in Hard Power

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This week marks the four-year anniversary of the Ukraine-Russia war, with little prospect of peace on the horizon based on the lack of progress in Geneva last week. Meanwhile, the U.S. military continues its massive buildup in both the Middle East and the Western hemisphere. Over in Asia, a regional arms race is underway as countries like Japan, South Korea and Taiwan prioritize defense spending in the face of China's rapid military modernization plans. As we have highlighted in the past, the world has entered an era of Great Power Rivalry. We live in a world where might makes right, which underpins our key theme: global defense and cybersecurity.

That begins to explain why defense budgets globally are rising at one of the fastest clips in decades. In fact, spending on defense globally has never been higher, reaching a record high of \$2.7 trillion in 2024, the last year of data. The U.S., long the largest defense spender, has its sights set on building a "Dream Military," with a \$1.5 trillion budget proposal. Already, the U.S. spends more on defense than the next nine countries combined (Exhibit 3A).

Under U.S. pressure, most North Atlantic Treaty Organization members have pledged to raise core military budgets to 3.5% of gross domestic product by 2035 on troops and weapons, with another 1.5% on defense-related items like critical infrastructure and cybersecurity. In coordination with those rising targets, the EU's revised Stability and Growth Pact allows member states to exceed deficit limits.

Order books and factory orders have been influenced: Germany's defense related factory orders unexpectedly surged over the final three months of 2025, driven by strong demand for heavy machinery, weapons systems and advanced electronics. Reflecting this momentum, Germany's largest arms manufacturer has seen its share price more than double over the past year.

Performance of aerospace and defense proxies has followed, with impressive runs since the start of the Russia-Ukraine war (Exhibit 3B). Impressively, stocks within the STOXX European Defense Index are up 14% year-to-date (YTD), led by gains in a drone manufacturer and a shipbuilder. U.S. aerospace and defense names have also advanced, rising more than 12% so far this year, closely followed by an Asia Pacific defense aggregate, which is up 11% YTD.

And so, global defense spending on armaments, rearmament and advanced military technologies is in an upcycle, supported by shifting geopolitics and expanding national budgets. At the same time, demand is accelerating for next generation capabilities ranging from cybersecurity solutions to unmanned systems, AI enabled defense architectures, hypersonic technologies and satellite networks.

Portfolio Considerations

As wars grind on, the world is rearming. Defense spending targets pushing higher globally further supports the momentum the aerospace and defense industry has seen in recent years against a backdrop of unsettled geopolitics.

Exhibit 3: The Ramp Up: Defense Spending and Performance of Aerospace and Defense Since Russia's Invasion of Ukraine.

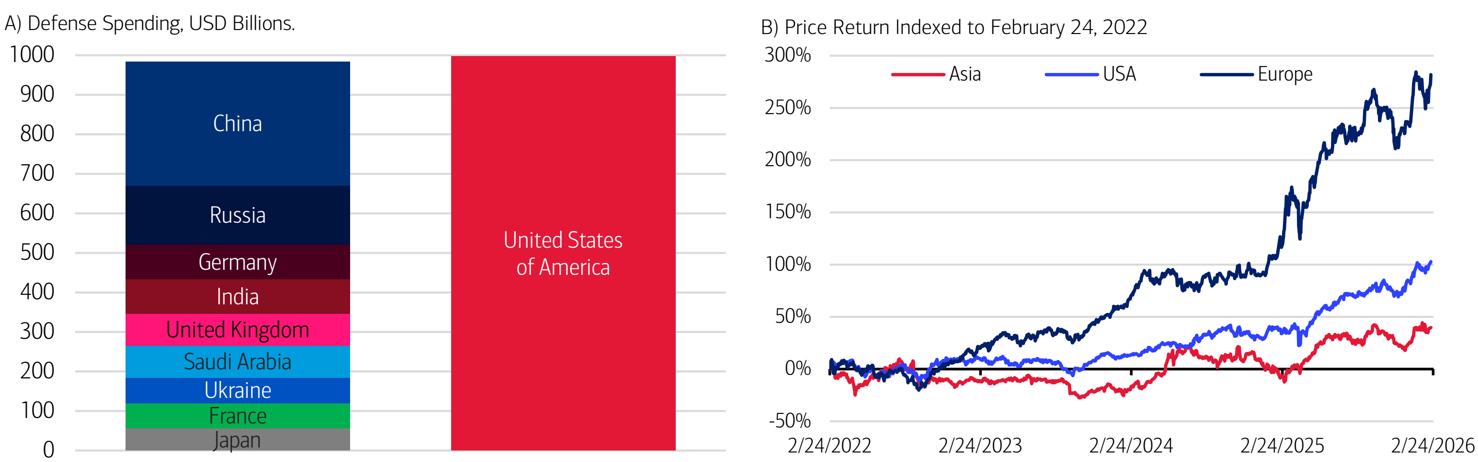

Exhibit 3A) Source: Stockholm International Peace Research Institute. Data refers to 2024, as of February 2026. Exhibit 3B) Source: Bloomberg Asia Pacific Aerospace/Defense Index, S&P 500 Aerospace & Defense Industry GICS Level 3 Index, and STOXX Europe Total Market Aerospace & Defense Index used. Source: Bloomberg. Data as of February 18, 2026. **Past performance is no guarantee of future results**. Please refer to index definitions at the end of this report. It is not possible to invest directly in an index.

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Asset Class Weightings (as of 2/3/2026)

Asset Class	CIO View / Underweight		Neutral	Overweight	
Global Equities				●	
U.S. Large-cap Growth				●	
U.S. Large-cap Value				●	
U.S. Small-cap Growth				●	
U.S. Small-cap Value				●	
International Developed		●			
Emerging Markets				●	
Global Fixed Income		●			
U.S. Governments		●			
U.S. Mortgages		●			
U.S. Corporates		●			
International Fixed Income		●			
High Yield		●			
U.S. Investment-grade Tax Exempt		●			
U.S. High Yield Tax Exempt		●			
Cash					

CIO Equity Sector Views

Sector	CIO View / Underweight		Neutral	Overweight	
Financials					●
Utilities				●	
Consumer Discretionary				●	
Industrials				●	
Communication Services			●		
Information Technology			●		
Healthcare			●		
Real Estate		●			
Consumer Staples		●			
Materials		●			
Energy	●				

Source: Chief Investment Office as of February 3, 2026. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

Economic Forecasts (as of 2/20/2026)

	Q4 2025A	2025A	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	2026E
Real global GDP (% y/y annualized)	-	3.6*	-	-	-	-	3.5
Real U.S. GDP (% q/q annualized)	1.4*	2.2*	2.6	3.0	2.0	2.0	2.8
CPI inflation (% y/y)	2.7	2.7*	2.5	3.0	2.7	2.6	2.7
Core CPI inflation (% y/y)	2.7	2.9*	2.6	2.8	2.6	2.7	2.7
Unemployment rate (%)	4.5	4.3*	4.5	4.5	4.4	4.3	4.4
Fed funds rate, end period (%)	3.63	3.63	3.63	3.38	3.13	3.13	3.13

The forecasts in the table above are the base line view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. Historical data is sourced from Bloomberg, FactSet, and Haver Analytics. **There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.**
A = Actual. E/* = Estimate. Data as of February 20, 2026.
Sources: BofA Global Research; GWIM ISC as of February 20, 2026.

Equities

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
DJIA	49,625.97	0.3	1.6	3.4
NASDAQ	22,886.07	1.5	-2.4	-1.5
S&P 500	6,909.51	1.1	-0.3	1.1
S&P 400 Mid Cap	3,606.95	1.2	5.0	9.3
Russell 2000	2,663.78	0.7	2.0	7.4
MSCI World	4,555.11	1.0	0.7	2.9
MSCI EAFE	3,141.50	0.9	3.3	8.7
MSCI Emerging Markets	1,567.23	0.8	2.6	11.7

Commodities & Currencies

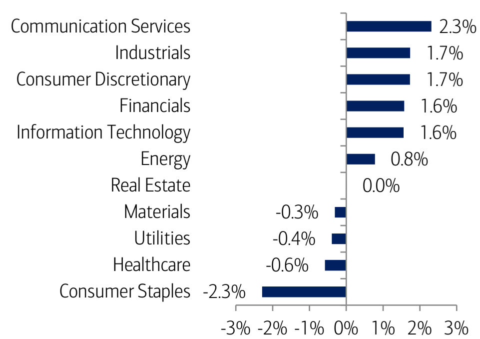
	Total Return in USD (%)			
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	302.97	2.1	-0.6	9.7
WTI Crude $/Barrel††	66.39	5.6	1.8	15.6
Gold Spot $/Ounce††	5107.45	1.3	4.4	18.2

	Total Return in USD (%)			
Currencies	Current	Prior Week End	Prior Month End	2024 Year End
EUR/USD	1.18	1.19	1.19	1.17
USD/JPY	155.05	152.70	154.78	156.71
USD/CNH	6.90	6.90	6.96	6.98

Fixed Income†

	Total Return in USD (%)			
	Current	WTD	MTD	YTD
Corporate & Government	4.16	-0.07	1.11	1.11
Agencies	3.91	-0.03	0.69	0.81
Municipals	3.33	0.23	0.92	1.86
U.S. Investment-Grade Credit	4.24	-0.08	1.09	1.20
International	4.75	0.02	1.08	1.26
High Yield	6.56	0.18	0.41	0.92
90 Day Yield	3.67	3.67	3.65	3.63
2 Year Yield	3.48	3.41	3.52	3.47
10 Year Yield	4.08	4.05	4.24	4.17
30 Year Yield	4.72	4.69	4.87	4.84

S&P Sector Returns



Sources: Bloomberg, Factset. Total Returns from the period of 2/17/2026 to 2/20/2026. †Bloomberg Barclays Indices. ††Spot price returns. All data as of the 2/20/2026 close. Data would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend. **Past performance is no guarantee of future results.**

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in U.S. dollars.

S&P 500 Index is a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States.

MSCI U.S. Index is designed to measure the performance of the large and mid cap segments of the US market. With 544 constituents.

MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries.

MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

MSCI United Kingdom (U.K.) Index is designed to measure the performance of the large and mid cap segments of the UK market.

MSCI Eurozone Index seeks to track the investment results of an index composed of large- and mid-capitalization equities from developed market countries that use the Euro as their official currency.

S&P 500 sub-sectors and industry groups Global Industry Classification Standard (GICS®)/S&P 500 Total Return Index, including Information Technology Total Return (TR) USD; Consumer Discretionary TR USD; Industrials TR USD; Real Estate TR USD; Communication Services TR USD; Materials TR USD; Financials TR USD; Consumer Staples TR USD; Utilities TR USD; Energy TR USD; Healthcare TR USD.

Bloomberg Asia Pacific Aerospace/Defense Index are designed to measure the performance of narrow GICS® sub-industries. The S&P Aerospace & Defense Select Industry Index comprises stocks from the S&P Total Market Index that are classified in the GICS Aerospace & Defense sub-industry.

S&P 500 Aerospace & Defense Industry GICS Level 3 Index comprises stocks from the S&P Total Market Index that are classified in the GICS Aerospace & Defense sub-industry.

STOXX Europe Total Market Aerospace & Defense Index tracks armament producers at a time of heightened geopolitical tension and a historic upgrade of the continent's military capabilities.

Important Disclosures

Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.

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